



## **Douglas County Internal Audit**

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January 15, 2013

Douglas County Board of Commissioners  
1819 Farnam Street, Suite LC2  
Omaha, NE 68183

Attention: Mary Ann Borgeson, Mike Boyle, Clare Duda, Marc Kraft, PJ Morgan,  
Chris Rodgers and Pam Tusa

John Friend, Clerk of the District Court  
300 Hall of Justice  
1701 Farnam Street, 3rd Floor  
Omaha, NE 68183

Dear Commissioners and Mr. Friend:

I have completed an audit of the Douglas County Clerk of the District Court cash-handling processes. The purpose of the audit was to assess the adequacy of the control processes over the receipting and disbursement functions within the Clerk of the District Court office. Generally accepted practices within these functions with an emphasis on segregation of duties were used as the criteria to assess the adequacy of the design of each process. The audit revealed that there were issues related mainly to inappropriate segregation of duties within the disbursement function. Opportunities to improve controls were identified and appear below.

### **Background**

The Clerk of the District receives and disburses monies related to civil and criminal court orders. This would include such things as bond postings, fines, spousal support, property settlements, etc. The cases before March of 2011 were tracked and maintained in the CJIS system. The District Court is now using the Justice system to receive and disburse court-ordered, financial activity. For fiscal year 2012, the Clerk of the District Court received over \$17 million and disbursed roughly the same amount. On any given day the office has approximately \$6 million of cash and short-term investments (i.e., bank accounts, certificates of deposits, and money market accounts). The processes related to collecting and disbursing these transactions were the subject of the audit.

### **Objective**

The purpose of the audit was to assess the adequacy and effectiveness of the control processes used to receive and disburse cash. Specifically, the controls were assessed to see that they accomplished the following objectives:

- Accountability for cash receipts should be established to detect misdirected cash and should include verification that deposits were made intact.
- Access to accounts receivable and cash receipt information and processes should only be provided in accordance with management's approval which provides for adequate segregation of duties.
- Each disbursement of cash should be based upon a recognized liability, be accurately prepared and properly authorized.
- Cash Disbursement functions should be adequately segregated to prevent and detect unauthorized disbursements.
- Management should periodically substantiate and evaluate recorded balances for cash accounts.

### **Scope**

The policies and procedures in effect as of November of 2012 were used to assess the design of the controls. The period from April of 2012 through November 15 was included for sample selection of records.

### **Methodology**

The information documented by Internal Audit was obtained through interviews and observations of the processes and systems in place. System access listings for Oracle were generated by Internal Audit and provided by DOT.Comm for main frame systems which were used in assessing segregation of duties. The documentation was compiled and summarized in process flowcharts that were reviewed by Clerk of the District Court personnel for accuracy. These process flows served as the primary basis for assessing the design of the controls in place.

Numerous tests were performed using transactions and other work product generated during the period identified in the scope above:

- Forty receipts were examined to determine that amounts collected by cashiers were deposited intact and posted completely and accurately in the CJIS and Justice systems. The amounts were traced and agreed to the appropriate logs, system reports and bank statements. Internal Audit relied upon the work of Hayes & Associates which examined 25 days of receipts.
- Forty disbursements from both the CJIS and Justice systems were judgmentally selected to determine that all the payments were made per a related court order.
  - The check and court order images were accessed to see that the amounts and payees per the check image agreed to the system and the orders.
- The main checking account bank reconciliations for U.S. Bank and Mutual of Omaha for April, July, August and November 2012 were examined. The reconciliations were tested to see that:
  - The bank statement, system reports and other source documentation supported the reconciliation.
  - The reconciliation was prepared in a timely manner.
  - Reconciling items were resolved in a timely manner.

- There was evidence of timely supervisory review.
- Pledged securities verifications for the same months tested for the bank reconciliations noted above were obtained to determine the adequacy of coverage above FDIC limits.
- When receipts are collected that are different than the amount the system calculates the excess shows up in a Holding Account Report. The latest report (it is cumulative) was reviewed to determine that items are being resolved in a timely manner and the items appearing on the report were supported by a court order.

The issues identified appear in the Findings section below:

## **Findings**

### **Segregation of Duties**

**Criteria:** Disbursement functions should be designed to ensure all disbursements are based upon a recognized liability and include duties that are adequately segregated to prevent and detect unauthorized disbursements.

**Condition:** There were a number of issues related to segregation of duties over disbursements.

- The Assistant Chief Deputy has the ability to receive and disburse funds in the Justice and CJIS systems; he also reconciles the related bank accounts.
- Persons who set-up court orders and process disbursements in the systems have the ability to create or change payees that could be different than the persons ordered to receive payments.

Note: The Department Supervisor reviews CJIS system disbursements by agreeing the payments to court orders. However, he has the ability to set-up and change the payees in the system. The number of disbursements out of the Justice System is much larger, and there is no verification with applicable court orders.

- The Clerk of the District Court office occasionally wires money out of its accounts. There is no process in place whereby the banks would confirm the wires with someone other than the wire initiator.

**Effect:** The conditions outlined above provide an opportunity to make unauthorized disbursements and possibly avoid detection.

**Cause:** Limited staff and limitations of access design within the CJIS and Justice systems make it difficult to segregate duties. There was no agreement in place to require the banking institutions to confirm wire transfers with someone other than the initiator.

**Recommendation:** There are a number of possible solutions to address the segregation of duties issues outlined above. Someone other than a person who has the ability to process and post cash transactions should reconcile the bank accounts. The person assigned the duty of reconciling the accounts should understand how to reconcile the accounts and there should be a detailed independent review of the reconciliations.

To address the issue of creating/changing unauthorized payees, consider agreeing the payees to the court orders. This procedure would need to be performed by someone who does not have the

functionality to set-up payees in the systems. This would be a major undertaking for Justice System disbursements and could require additional staff to properly segregate the duties. One possible solution to address each of the first two Condition items for the Justice system is to generate a report that lists changes made to the payee field that do not agree to the creditor field per the court order. This report would need to be reviewed by someone not having the ability to make the changes within the system. The CJIS system disbursements are more manageable. Someone who does not have the ability to set-up payee master data or process disbursements within the CJIS system should ensure that the payments are made according to court orders.

Lastly, establish and enforce a policy requiring that all banks where deposits are held must confirm wire transfers with someone other than an initiator.

Management Response: Clerk of the District Court staff has requested from the Supreme Court (JUSTICE Case Management System Stewards) a report that shows checks written to each person by name and compares that name with the person who is the payee on a judgment. This will catch any issues with staff changing or striking over a payee's name. This report will be reviewed by a staff member who does not work in the financial area in the office and does not have authority to change payees' names on the system. Any suspicious issues will be investigated by this staff member and any unresolved issues will be brought to the attention of the clerk and the internal auditing staff as well as the County Attorney immediately. This same staff member will review "Register of Checks" report generated by the Douglas County Mainframe on a daily basis to perform the same function in the previous case management system.

#### Bank Reconciliations

Criteria: Management should periodically substantiate and evaluate recorded balances for cash accounts. Management should document that the process was completed.

Condition: The Clerk of the District Court maintains numerous bank accounts for court ordered investments. The Assistant Chief Deputy reconciles these accounts each month but does not attach the online bank statements used to reconcile the accounts.

Effect: There is no evidence that the court ordered investments are reconciled on a timely basis or receive supervisory review.

Cause: There was no policy in place that required that the on-line statements be included with the bank account reconciliations to document their timely preparation and review.

Recommendation: Print the on-line statements and attach them to the reconciliations. Include evidence of supervisory review on the reconciliations.

Management Response: All bank accounts and court ordered investments are reviewed each month by accounting staff. The Clerk of the District Court has instituted a procedure that insures that all accounts will have the on-line bank statements attached to reconciliation reports and will be reviewed each interval by the Chief Deputy upon being reconciled by accounting staff. Upon the Chief Deputies review, the reconciliation reports as well as bank statements and reconciliation reports will be filed together by month and will be kept according to records

retention schedules. Also, all bank wire transfers will require the bank to call someone other than the person who is requesting the wire transfer.

#### Unclaimed Property

Criteria: Nebraska Revised Statute §24-345 requires that all money other than witness fees, fines, penalties, forfeitures and license money that comes into the possession of the custody of the Clerk of the District Court uncalled for after three years following the close of litigation shall be remitted to the State Treasurer.

Condition: The Clerk of the District Court has not submitted unclaimed money held for more than three years to the State Treasurer. The Douglas County Attorney confirmed that many of the types of unclaimed monies held by the court for items such as bonds, restitution, court-ordered payments, etc. were in fact subject to the statute.

Effect: The Clerk of District Court did not follow state statute and has an indeterminate liability to the state for unclaimed property.

Cause: The Clerk of the District Court accounting staff was uncertain that the type of unclaimed money held by the court was subject to the unclaimed property statute.

Recommendation: Identify and research all unclaimed amounts and submit the money to the state according to statute.

Management Response: Clerk of the District Court Staff will research all outstanding cases where money exists that is beyond the statutory limits and will remit all appropriate funds to the state treasurer per statute

#### Audit Standards

Internal Audit conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that the audit is planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. Internal Audit believes that the evidence obtained provides a reasonable basis for its findings and conclusions based on the audit objectives. This report was reviewed with John Friend, Clerk of the District Court, Jane Alexander, Chief Deputy of the District Court, and Richard Kroh, Assistant Chief Deputy of Clerk of the District Court.

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Internal Audit appreciates the excellent cooperation provided by the Clerk of the District managers and staff. If you have any questions or wish to discuss the information presented in this report, please feel free to contact me at (402) 444-4327.

Sincerely,

Mike Dwornicki  
Internal Audit Director

cc: Paul Tomoser  
Trent Demulling  
Joni Davis  
Donald Stephens  
Jane Alexander  
Richard Kroh  
Thomas Cavanaugh  
Kathleen Hall  
Kathleen Kelley  
Joe Lorenz  
Patrick Bloomingdale  
Mark Rhine